

Tapes 11-12 (A/B) Public Hearing: HB 2162 Orientation/Corporate Taxes
HOUSE COMMITTEE ON REVENUE AND SCHOOL FINANCE

January 18, 1991 8:00 AM Hearing Room A State Capitol Building .
Members Present: Representative Delna Jones, Chair Representative
Carl Hosticka, Vice-Chair Representative Mike Burton Representative
Kelly Clark Representative Bev Clarno (arrived 8:12) Representative Mike
Nelson Representative Fred Parkinson Representative John Schoon
Representative Jim Whitty Staff Present: Dick Yates, Legislative
Revenue Office Linda Leach, Committee Assistant Witnesses
Present: Jim Brown, Department of Revenue Ed Patterson, Oregon
Association of Hospitals Scott Gallant, Oregon Medical Association
TAPE 11 SIDE A 005 CHAIR JONES called the meeting to order at 8:02 and
conducted administrative business. PUBLIC HEARING HB 216 2 038 JIM
BROWN explained that HB 2162 deals with business income tax credits and
how credits flow through to individuals of an "S" Corporation. He
reviewed a tax credit from the 1989 Legislative Session for medical
professionals working in rural areas. He pointed out a problem with
standard tax credit language in the 1989 law. HB 2162 corrects that
problem and will remove specific "flow through" language for all "S"
Corporation tax credits in order to provide one section of law which
deals with how business credits flow through to individuals. He referred
to Outline of House Bill 2162 which lists business credits that will be
available to "S" Corporation shareholders on a flow-through basis.
Exhibits 1, 2 108 Questions and discussion regarding an original issue
(1989 Legislative Session) of a tax credit for medical professionals
working in rural areas. 124 JIM BROWN continued with his explanation of
HB 2162. 160 Questions and discussion.

These minutes paraphrase and/or summarize statements made during this
meeting. Text enclosed in quotation marks reports the speakers exact
words. For complete context of proceedings, please refer to the tape
recording. House Committee on Revenue and School Finance January 18,
1991 Page 2 180 Questions and discussion regarding connection to the
Internal Revenue Code. 196 JIM BROWN referred to Proposed Amendments to
HB 2162-2 which correct outdated sections of a law, remedy a problem
with the "relating clause" and includes "S" or "C" corporations. Exhibit
3 243 Questions and discussion regarding a specific tax credit for
seasonal farm worker housing. 270 REP. BURTON clarified that HB 2162
does not delete any current tax credits. 278 CHAIR JONES summarized HB
2162-2. 281 Questions and discussion regarding ORS sections which are
being repealed and a process from Legislative Counsel. 299 JIM BROWN
explained proposed ORS section deletions. 309 DICK YATES explained the
problem with language of "person" in existing law. 340 ED PATTERSON
reviewed the history of rural health care inadequacies and subsequent
laws to provide incentives to medical professionals to work in rural
areas. He explained SB 438 from the 1989 Legislative Session which
addressed these issues. SB 438 provided a \$5,000 annual tax credit to
eligible individuals up to a maximum of ten years if 60% of their
practice was in rural areas. A five-year period was set out in SB 438 to
determine the tax credit success. He interjected that rural hospitals
are having success because of this tax credit. He pointed out a bill
draft to correct oversights made in SB 438 and noted those corrections
deal with the same section of ORS as in HB 2162. He requested Draft LC
1912 be incorporated into HB 2162 to expedite the legislative process.
Exhibit 5 TAPE 12 SIDE A 001 ED PATTERSON described legislative
committee hearings for SB 438 in 1989. He reviewed statutory definition
of a rural hospital and Types A, B and C hospitals. 051 Questions and
discussion regarding qualifying physicians for tax credit. 064 SCOTT
GALLANT provided information on medical professionals who applied for

the rural health care tax credit. He explained a problem with the original intent of a five year review timeline and noted that LC 1912 extends the credit through 1995 (the original intent). He reviewed another recommendation of increasing a loan amount to \$10,000 from \$7,500 and explained medical students average debt.

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These minutes paraphrase and/or summarize statements made during this meeting. Text enclosed in quotation marks reports the speakers exact words. For complete context of proceedings, please refer to the tape recording. House Committee on Revenue and School Finance January 18, 1991 Page 4 020 SCOTT GALLANT agreed with Chair Jones and Rep. Hosticka. 033 Clarification discussion regarding portions of Draft LC 1912 which will be amended into HB 2162. 043 Questions and discussion. 062 JIM BROWN acknowledged acceptance regarding amendments discussed today to HB 2162 as summarized by Chair Jones. 099 Questions and discussion. 105 CHAIR JONES recessed the meeting at 9:07 and reconvened the meeting at 9:22. She conducted administrative business. CORPORATE TAXATION 120 DICK YATES continued his review of Taxes on Corporate Income from January 17 committee meeting. He began with a description of Nexus. Exhibit 6, page 4 252 DICK YATES reviewed a section entitled UDITPA (Uniform Division of Income for Tax Purposes Act) and noted rules for apportioning business income include a three-factor formula of sales, property and payroll. Exhibit 6, page 5 274 Questions and discussion regarding Oregon's throwback rule. 281 DICK YATES explained that Oregon's throwback rule will be reviewed in detail at a later meeting. 298 DICK YATES reviewed the UDITPA formula in a handout entitled Apportionment Factors. He explained the definition of

"property" in the formula. Exhibit 7 353 DICK YATES pointed out a simple case example of apportioning business income. Exhibit 6, page 6 TAPE 12 SIDE B 001 Questions and discussion regarding Nexus and Washington law. 024 DICK YATES pointed out that the 1989 Legislature changed the averaging of the factors to double weighted sales. He provided an example of double weighted sales. Exhibit 6, page 7 066 Questions and discussion regarding double-weighted sales. 144 REP. HOSTICKA pointed out the intent of double-weighted sales was from economic development aspect and not for revenue raising reasons.

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Linda Leach, Committee Assistant Kimberly Taylor, Office Manager EXHIBIT SUMMARY 1. Outline of House Bill 2162, DOR, 1/18/91 2. Proposed Amendments HB 2162-2, DOR, 1/17/91 3. Fiscal Impact HB 2162, LFO, 1/17/91 4. Draft LC 1912, Ed Patterson, 12/14/90 - HB 2162 5. Research Report, Taxes on Corporate Income, LRO, 9/6/90 (see Exhibit 3 from 1/17/91 committee meeting - Orientation) 6. Apportionment Factors, LRO, 1/18/91 - Orientation 7. Testimony of Steven Robert Heine, 1/18/91 - Measure 5 These minutes paraphrase and/or summarize statements made during this meeting. Text enclosed in quotation marks reports the speakers exact words. For complete context of proceedings, please refer to the tape recording.